


BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2002-153-E - ORDER NO. 2002-375
MAY 16, 2002

IN RE: Application of Duke Power, a Division of) ORDER APPROVING
Duke Energy Corporation for Approval of the) PROGRAM WITH 
Levelized Billing Program for Residential) CONDITION
Customers.)

This matter comes before the Public Service Commission of South Carolina (the Commission) on the request of Duke Energy (Duke or the Company) for approval of a “Levelized Billing Program” (the program). Duke states that its market research indicates that some customers would value a program that provided electric bill certainty. Duke states a belief that this program satisfies that goal.

By way of explanation, Duke notes that electric customers have traditionally been billed on a volumetric basis. The proposed program offers customers electric service at a fixed dollar amount each billing period for one year, regardless of the amount of electricity used. There is no true-up for deviations of actual usage from expected usage. The program differs from Duke’s Equalized Payment Plan (EPP) which equalizes payments over a year but does require a true-up to actual usage at year end.

Duke states that customers who elect to participate in the program will benefit from this product for several reasons. First, they will know with certainty the amount of their monthly bill during the contract period, which facilitates budgeting and such practices as payment by automatic bank draft. Second, the customers are no longer at risk

due to factors beyond their control, such as weather variation. Duke states that it will benefit from improved customer satisfaction and a decrease in high bill complaints.

The Company proposes to offer this program to residential customers in good standing served on Duke's RE or RS Rate Schedules who have been in their residence for the past 24 months. In rare cases, Duke may allow a customer to participate with between 12 and 24 months usage history at his residence. The offer will be for one year's service, renewable by mutual agreement, and will be customer-specific. The offer will be based on each individual customer's usage history, adjusted to reflect normal weather conditions and expected changes in usage and thus will recover the expected costs of serving the customer. There will be a customer-specific analysis of weather sensitivity, resulting in a customer-specific estimate of normal usage.

According to Duke, the proposed program is consistent with cost-based pricing principles. The three components of the Levelized Billing price are the usage charge, the risk premium, and the administrative fee. Duke states that each of these is cost-based. Each customer's Levelized Billing offer will be priced according to their standard tariff for which they would otherwise qualify, but based on expected rather than actual usage. The Company states that this is acceptable since expected usage includes anticipated response to use of the rider, the product includes a risk premium to recover the increase in uncertainty about the degree of cost recovery relative to the standard tariff, and the term of contract is limited to one year at a time. The program will allow the Company to remove a customer whose usage is more than 30% greater than expected in each of three consecutive months, if necessary. The offer will also include a fee of \$1.00 per month to

cover the administrative costs of the Levelized Billing Program and a cost-based risk premium to cover the risk Duke undertakes in offering the program. Duke's initial year calculation of the risk premium is 4.4%. The Company anticipates that it will update the risk analyses after obtaining experience with the Levelized Billing Program and may seek approval to modify the risk premium periodically. Additionally, the Company will incorporate data from initial customers to better predict expected usage and risk for new and continuing customers.

The Company notes that similar products are available at some other utilities, for example Indianapolis Power and Light and Georgia Power Company. Both utilities have had two or more years of experience with the program and have demonstrated the program's technical feasibility.

Duke proposes to offer the Levelized Billing Program on a "program year" basis, i.e. at least once a year to eligible customers. Duke proposes to begin its first program year as early as September 1, 2002.

After some examination of the program, we believe that it has merit and should be approved as filed, for the reasons stated by Duke. However, we are concerned about the possibility of foregone revenues by the Company as the result of the program.

Accordingly, we hereby require the Company to track any resulting revenues foregone as the result of the program. A determination of the appropriate ratemaking treatment of any foregone revenues is reserved for a rate proceeding or other review as may be determined by this Commission at a later date.

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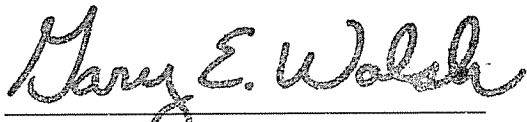
This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



Chairman

ATTEST:



Executive Director

(SEAL)